

## Message Text

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64

ACTION EB-11

INFO OCT-01 ARA-16 ADP-00 L-03 CAB-09 CIAE-00 COME-00

DODE-00 INR-10 NSAE-00 RSC-01 FAA-00 RSR-01 /052 W

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R 162135Z JUL 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 3286

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY PANAMA

AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: ETRN, XK, ES

SUBJECT: CIVAIR - CA MEETINGS AND PAN AM SITREP

REF: A. SAN SALVADOR 2324; B. STATE 130107; C. STATE 133083

1. ACTING LOCAL PANAM DIRECTOR LONGORIA HAS JULY 24 APPOINTMENT FOR PAN AM SENIOR V.P. FOR OPERATIONS CULLEY AND GEORGE BROWN WITH DAC COL. ORANTES DHEMING AND TACA'S KREITE AND QUEZADA, PRESIDENT AND GENERAL MANAGER RESPECTIVELY. AS PER REFTEL C, THE PURPOSE IS TO DISCUSS THE OCTOBER 29,,1973, SCHEDULE. LONGORIA AND THE EMBASSY AGREE THAT SUCH DISCUSSION WILL CERTAINLY INVOLVE THE PENDING APPLICATION FOR RENEWAL OF PAN AM'S PERMIT WHICH EXPIRES SEPTEMBER 25.

2. AS A SIDE ISSUE IN A DISCUSSION WITH ECONOMIC UNDERSECRETARY RAUL RAMOS JULY 9, EMBOFF REFERRED TO THE CONSIDERABLE PUBLICITY GIVEN TO CA AIRLINES' COMPLAINTS AGAINST PAN AM AND HIS KNOWLEDGE THAT THE GOES HAD ESTABLISHED A COMMITTEE TO REVIEW THE PROBLEM. EMBOFF COMMENTED THAT THE EMBASSY WAS CONCERNED THAT THE ISSUE BE WELL-MANAGED AND THAT BEFORE ANY GOES ACTION IS TAKEN, CONSIDERATION SHOULD BE GIVEN TO POSSIBLE  
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REPERCUSSIONS, PARTICULARLY AS THEY MIGHT INVOLVE CLAUSES IN

THE RECENTLY CAB-APPROVED TACA PERMIT. RAMOS ACKNOWLEDGED THAT A FIVE-MAN COMMITTEE (THE PRESIDENCIA, DAC, TOURISM INSTITUTE, MINISTRY PUBLIC WORKS AND ECONOMY) EXISTS TO OBTAIN PERTINENT INFORMATION FROM ALL INTERESTED CA CARRIERS AND MAKE RECOMMENDATIONS TO THE PRESIDENT ON AIR TRANSPORT POLICY IN GENERAL AND THE TACA/PAN AM ISSUE IN PARTICULAR. HE SAID HE REALIZED THE PROBLEM WAS CENTRAL AMERICAN AND THAT THE INHERENT PROBLEMS OF THE INDUSTRY STEMMED FROM ITS OVER-FRAGMENTATION BUT THE CA AIRLINES CONSORTIUM DID NOT YET APPEAR CLOSE TO REALIZATION. HE ASSURED EMBOFF THAT INFORMATION HAD BEEN RECEIVED FROM PAN AM. SUBSEQUENT DISCUSSION WITH LONGORIA CONFIRMED THAT PAN AM HAD NOT BEEN OFFICIALLY NOTIFIED OF THE COMMITTEE NOR ASKED FOR A SUBMISSION. ON JULY 12 THE EMBASSY GAVE LONGORIA A COPY OF THE PAN AM (WASHINGTON) REVIEW OF THE TACA BRIEF (REFTEL B) AND LONGORIA SAID HE WOULD SEEK NEW YORK'S PERMISSION TO USE THE REVIEW IN A SUBMISSION TO THE GOES COMMITTEE.

3. NEITHER PAN AM NOR THE EMBASSY KNOW OF CA AIRLINES' OR GOVERNMENT'S PLANS TO APPROACH USG. BASED UPON A COMPANY CABLE FROM PAN AM TEGUCIGALPA, LONGORIA REPORTED THAT THE CA AIRLINES HAD DRAFTED A DOCUMENT TO BE SENT TO ALL DAC'S IN THE REGION AND THAT IT ARGUES FOR A REVISION OF ALL PAA SCHEDULES AND INCLUDES INTER ALIA THE EXTREME OPTION OF DENYING PAA FIFTH FREEDOM RIGHTS IN CA, REASONING THAT THE CA AIRLINES CAN FEED PAN AM AT TERMINAL POINTS SUCH AS MIAMI. THE EMBASSY IS AWARE THAT TACA'S PRESIDENT KRIETE HAS ORDERED ALL TACA STAFF TO LEAVE ALL DISCUSSION ON PAA TO HIM.

4. RAUL RAMOS TOLD EMBOFF THAT ALLEGED EXCESS CAPACITY INVOLVES NOT ONLY PAN AM BUT RECENT ENTRANTS INTO CA, SUCH AS SAM AND IBERIA, AND THAT ONLY SUPERFICIAL STUDIES WERE DONE BEFORE THE DAC APPROVED THESE PERMITS. (PAN AM REPORTS THAT THE RECENTLY INAUGURATED WEEKLY IBERIA FLIGHTS WILL BE TEMPORARILY SUSPENDED FROM JULY 15 UNTIL NOVEMBER 1. THIS IS BECUASE IBERIA HAS SWITCHED TO THE STRETCH DC-8 AND SAN JOSE CANNOT ACCOMMODATE IT UNTIL ITS RUNWAY IS IMPROVED.)

5. AN ADDITIONAL FACTOR IN THE PRESSURE ON PAN AM IS THE LIMITED OFFICIAL USE

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EXTREMELY DELICATE FINANCIAL SITUATION OF TACA. WHEN ITS ARREARAGES REGION-WIDE TO ESSO RECENTLY REACHED \$150,000 ESSO ALMOST PUT THEM ON A CASH BASIS BUT DECIDED AGAINST IT FOR POLITICAL REASONS. IN THE COURSE OF ITS DISCUSSIONS WITH TACA, ESSO OBTAINED AND ANALYZED THE BALANCE SHEETS AND CONCLUDED THAT TACA IS TECHNICALLY BANKRUPT, ITS CASH FLOW IS CLEARLY INADEQUATE (ESPECIALLY IN LIGHT OF RECENT PURCHASE OF A THIRD BAC111), ITS ASSETS ARE OVER-VALUED, AND THE BOOKS

EVIDENCE HIGHLY IRREGULAR ACCOUNTING PROCEDURES. TACA IS SEEKING AND APPARENTLY OBTAINING FROM THE GOES PRIVILEGED TREATMENT IN AN EFFORT TO SURVIVE. AN EXAMPLE IS THE EXCLUSIVE RIGHTS TO OUTGOING AIRMAIL SINCE EARLY JUNE (PAN AM HAD THE BULK OF IT PREVIOUSLY). WE POINT THIS FACTOR OUT SINCE IT ADDS AN ADDITIONAL DIMENSION TO THE GENERAL, CA AND TACA PRESSURE AGUINSO FOREIGN COMPETITION AS REPRESENTED BY PAN AM.  
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